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October 25, 2007

The Honorable Robert Zoellick, President
The World Bank Group
1818 H Street, NW
Washington, DC 20433

Dear Mr. Zoellick:

Please accept my congratulations on your recent appointment as the eleventh President of the World Bank Group. As you move forward, I hope you will consider me an ally in your efforts to carry out the Bank's core mission: "Working toward a world free of poverty."

With an eye toward achieving this laudable objective, I convened a Senate hearing in August to examine challenges facing certain international financial institutions, including whether World Bank programs are being hampered by internal resistance to increased transparency and accountability. A commitment to helping the world's poor carries with it a special responsibility to ensure the Bank is efficiently run and its efforts produce tangible results. Our diverse panel of witnesses offered a few key suggestions on which the World Bank could act before Congress is asked to authorize another three-year commitment to the International Development Association (IDA).

A central point underscored at the hearing was that the Bank should re-evaluate its ongoing substantial involvement in middle income countries with sufficient access to private capital. From 1998 to 2005, middle-income nations receiving Bank funding netted \$1.9 trillion from private investors in medium- and long-term debt, portfolio equity and direct investment, according to the Bank's Global Development Finance data. These numbers suggest that the Bank has deviated from its core mission and is now competing against private sector investors in countries that do not need the Bank to achieve economic growth. Supporters of the Bank's current lending practices identify the technical training and development assistance that comes with Bank programs as a rationale for the loans being made to middle income countries like China. While such training is an important component of the Bank's work, China has over \$1.4 trillion in foreign exchange reserves which it could draw down rather than borrow from the Bank. It is difficult to justify taxpayer support for an institution that lends money to countries that have access to other resources and do not truly need the Bank's assistance.

Another point of emphasis was the need for a greater focus on fighting corruption. An important first step in that effort would be for the Bank to make public all documents submitted to its senior management and to its board of Executive Directors for the approval of IDA projects. Post approval progress and completion reports as well as post completion reviews should also be made available, including a meaningful review of procurement and expenditures under each project. A web-based publication should not impose an undue burden on the Bank as all these documents are in electronic form. Allowing the publication of information on specific projects will clarify the intended, as well as actual use of Bank funds and enable a more accurate accounting of these funds. Congress is more likely to support future commitments to IDA if they

have a complete understanding of how taxpayer dollars are being spent by the Bank and recipient governments.

Releasing details on individual projects, including expenditures, will also facilitate more accurate assessments of the effectiveness of Bank projects. A shared concern among many is the manner in which the Bank evaluates its own work. Too often success is defined by the amount of money transferred, rather than whether the use of that money produces tangible results. An independent process would be able to better assess the outcome of Bank-funded projects. An external evaluation would review Bank programs with more detachment than is possible for an internal body, even one with presumed organizational independence, such as the World Bank's Independent Evaluation Group, where the staff is drawn from and returns to the operational side of the Bank and whose compensation and career advancement are determined by the Bank's human resources processes.

It is critical to ensure transparency in procurement on Bank-funded projects. I am dismayed by the reintroduction of the country systems proposal that would substitute a country's own procurement systems for the Bank's procurement rules and standard bidding documents. There is substantial concern in Congress that such a move would lead to increased graft and misallocation of U.S. taxpayer dollars. I am particularly troubled that the current proposal is even flimsier than the 2005 country systems proposal previously rejected by Congress and withdrawn by the Bank. It has been reported that the Bank retained PriceWaterhouseCoopers in 2006 to review one of the Bank's decentralized "procurement hubs" in India, and that this review found numerous control deficiencies and lax enforcement of the Bank's own policies. This PwC review should be made public and its findings acted upon.

As a first step in addressing this issue, I urge that the Bank lead in the development and articulation of an international best practice standard for procurement, including the use of standard bidding documents. Once completed, the Bank will be in a position to develop suitable and effective assessment tools for borrower countries. I further urge that the Bank update and strengthen its own Country Procurement Assessment Review (CPAR) tools and processes to achieve timely and valid analytical results rather than relying on outdated CPARs as well as the OECD's Development Assistance Committee assessment tool.

Further, it is important that all countries receiving Bank assistance undergo a comprehensive CPAR at least every three years. This review should include remedial plans and actions, and the results should be made available to the public. I would further emphasize the importance of releasing the procurement plans for each project, while routinely updating and publishing detailed revisions of such plans during project implementation as required by Bank rules and procedures.

The findings of a recent review by a panel headed by former Fed Chairman Paul Volcker raised additional concerns that the Bank's staff and management are not dealing with corruption in a forthright manner. This review noted that, "there was...and remains now, resistance among important parts of the Bank staff and some of its leadership" to having allegations of corruption in the Bank's projects investigated. The review pointed to "a tendency to shrink from confrontation with borrowing countries" concerning corruption, and a "discomfort" to have

projects found to have been exposed as rife with corruption, "creating an awkward problem in relations with borrowing clients." These findings imply a deeply troubling willingness within the Bank to turn a blind eye to serious weaknesses in project implementation. It is incumbent that the Bank make the needed reforms called for in Chairman Volcker's explicit recommendations, as well as to address implicit weaknesses such as those referred to above.

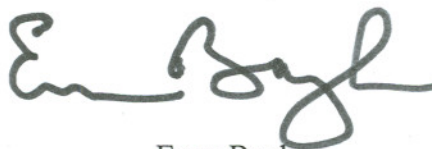
Some observers have underscored the need for improved efficiency and management at the Bank to ensure a maximum amount of resources go to the poor. In my view, excessive salaries and benefits enjoyed by World Bank employees run counter to this objective. Although the Bank claims only 12,500 employees, another 12,000 are on the payroll as "consultants," making the World Bank the second largest employer in the District of Columbia, behind only the Federal Government. Thousands of Bank employees earn more than \$200,000 per year, tax free. While the organization is taking steps to release base salaries for nine senior employees, this does not accurately reflect their total remuneration. It also does not capture all the highest-compensated managers within the institution; there are currently Vice Presidents within the Bank receiving base salaries above the Bank's published salary range for that position.

Additionally, Bank employees coming from overseas receive a multi-year Mobility Premium ranging from \$9,000 to over \$14,000, depending on their country of origin. Staff are also given a Dependency Allowance amounting to \$3,500 per year for spouses, and \$600 per child up to age 19. The Bank's "home leave" program pays for annual trips home, or to another destination, for bank employees, their families, and in some cases, their nannies. The Bank even pays the tuition expenses for the children of some employees. Many question whether this scenario stands at odds with an institution whose mission is poverty alleviation.

Opposition to these reforms has caused many U.S. policymakers to resist calls for the United States to relinquish its longstanding position of influence at the Bank. In my view, taking meaningful steps to address these concerns would encourage members of Congress to share Bank leadership with a larger group of countries.

Over 63 years ago, the World Bank was tasked with eradicating poverty. You have my respect as you seek to change an internal culture that too often stands as an impediment to achieving this mission.

Sincerely,

A handwritten signature in dark ink, appearing to read "Evan Bayh". The signature is fluid and cursive, with a large, stylized "E" and "B".

Evan Bayh